

MEMORANDUM

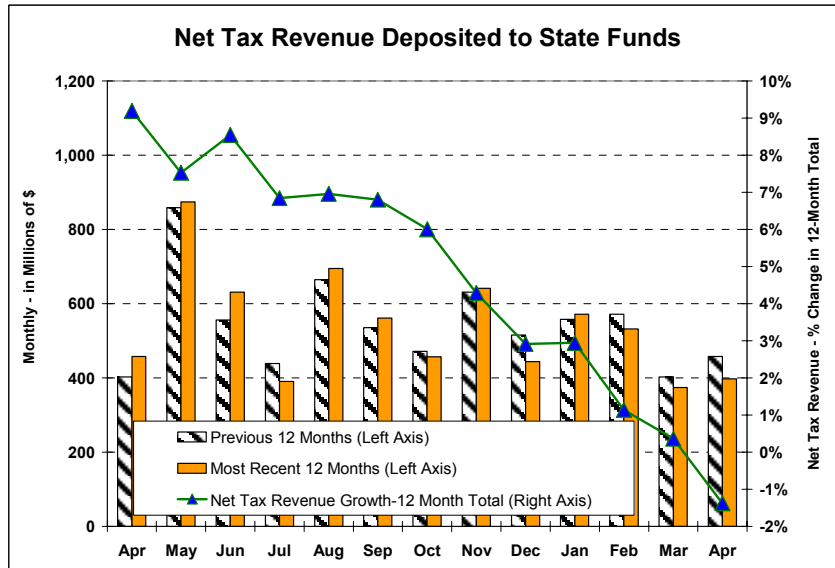
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: May 27, 2009

Twelve-month Total Net Tax Receipts Through April 30, 2009

The attached spreadsheet presents net State tax revenue deposited to State funds for the 12-month period ending April 2009 with comparisons to the previous 12 months. April 2008 to April 2009 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Month of April Comparison

April net tax receipts totaled \$398.1 million, a decrease of \$59.7 million (- 13.0%) compared to April 2008. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$44.6 million, - 20.7%) – Gross income tax receipts decreased \$17.7 million in April as respectable growth in withholding payments was eclipsed by significant declines in income tax payments with tax returns and quarterly estimate payments. Income tax refunds were \$26.9 million higher for the month. Monthly year-over-year negative net income tax growth is rare, with only nine instances over the past 47 months. Five of those instances occurred over the past seven months.
- Corporate Income Tax (negative \$12.6 million, - 27.3%) – Gross receipts decreased \$6.1 million and refunds increased \$6.5 million.
- Sales/Use Tax (positive \$0.9 million, 0.9%)
 - Road Use Tax Fund use tax and fees for new registrations increased \$1.7 million.
 - Use tax deposited to the Underground Storage Tank Fund decreased \$4.2 million.
 - General Fund sales/use tax receipts increased \$39.4 million and refunds issued for the month increased \$36.0 million (net increase of \$3.4 million). The large increases in gross receipts and in refunds are related to the recently-enacted statewide sales/use tax increase for school infrastructure coupled with the elimination of the local option sales tax for school infrastructure. This change boosts State sales/use tax receipts while increasing tax refunds by a similar amount, as the school infrastructure revenue is being removed from the State General Fund through a refund appropriation.
- Fuel Tax (negative \$1.9 million, - 5.5%) – Gross fuel tax revenue decreased \$1.6 million while refunds processed in the month increased \$0.3 million. Fuel tax deposit timing appears very erratic and large monthly increases and decreases are common.
- Cigarette & Tobacco Taxes (negative \$3.4 million, - 15.2%) – The cigarette tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. In addition, Iowa banned smoking in most public indoor locations effective July 1, 2008. Monthly cigarette and tobacco tax deposits have decreased at least 6.8% in each of the past four months, suggesting that the smoking ban may have had more of an impact on cigarette sales during the winter months. A \$0.62 per pack federal tax increase, effective April 1, 2009, will increase downward pressure on sales.
- Gambling Taxes (positive \$4.8 million, 19.2%) – Gambling tax revenue is deposited weekly and April 2009 had five deposit days while April 2008 had only four. This issue will negatively impact May comparisons.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending April 2009, net revenue from all taxes deposited to State funds totaled \$6.571 billion, a decrease of \$91.5 million (- 1.4%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (negative \$26.9 million, -0.9%) – The rate of individual income tax receipt growth has decreased significantly since peaking in April 2008 at 11.8% year-over-year.
- Corporate Tax (negative \$72.2 million, - 20.4%) – In November 2008, annual net corporate tax receipt growth became negative for the first time since August 2004.

- Sales/Use Tax (positive \$16.6 million, 0.7%) – Net sales/use tax receipts have been down four of the past five months compared to the same month the previous year and the annual percent growth has fallen from 4.1% to 0.7% over that time.
- Fuel Tax (negative \$10.4 million, - 2.3%) – Net motor fuel tax revenue has been weak the past twelve months, likely the result of higher fuel prices through July 2008 and declining economic activity since then. According to Department of Revenue taxable gallons sales reports, over the most recent 12-month period Iowa gasoline/ethanol gallons sold decreased 1.8% while diesel sales were down 6.0%, the sixth consecutive month showing a decline in annual diesel taxable sales.
- Gambling Tax (positive \$6.9 million, 2.4%) – Despite a new Waterloo casino and expansion of the casinos in Clinton and Dubuque, three changes providing boosts to year-over-year gambling growth, gambling tax revenue is only modestly positive year-over-year. According to Racing and Gaming Commission statistics, ten of Iowa's seventeen casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending April 2008. The AGR growth for all facilities was 1.5% over the past 12 months. Excluding the three new or expanded facilities, growth was negative 1.7%.
- Cigarette and Tobacco Tax (negative \$7.8 million, - 3.1%) – The second anniversary of the tax increase has passed and the tax increase will not impact the year-over-year growth calculation after April 2009.
- Insurance Premium Tax (negative \$2.8 million, - 2.7%) – The insurance premium tax rate was reduced over multiple years and is now fully implemented. The lack of growth in insurance premium tax revenue may be the result of expanded use of tax credits, including credits earned through an insurance company's own activities as well as credits purchased from others.

Tax Spotlight – Cigarette Tax and Tobacco Tax

Tobacco products are taxed under the authority of Chapter 453A, Code of Iowa. Based on law changes during the 2007 legislative session:

- Cigarettes (and little cigars) are taxed at \$.068 per cigarette (\$1.36 per pack of 20).
- Snuff is taxed at \$1.19 per ounce.
- Cigars are taxed at 50.0% of the wholesale price per cigar, not to exceed \$0.50 per cigar.
- All other tobacco products are taxed at 50.0% of the wholesale price.

The current State tax rates went into effect on March 16, 2007.

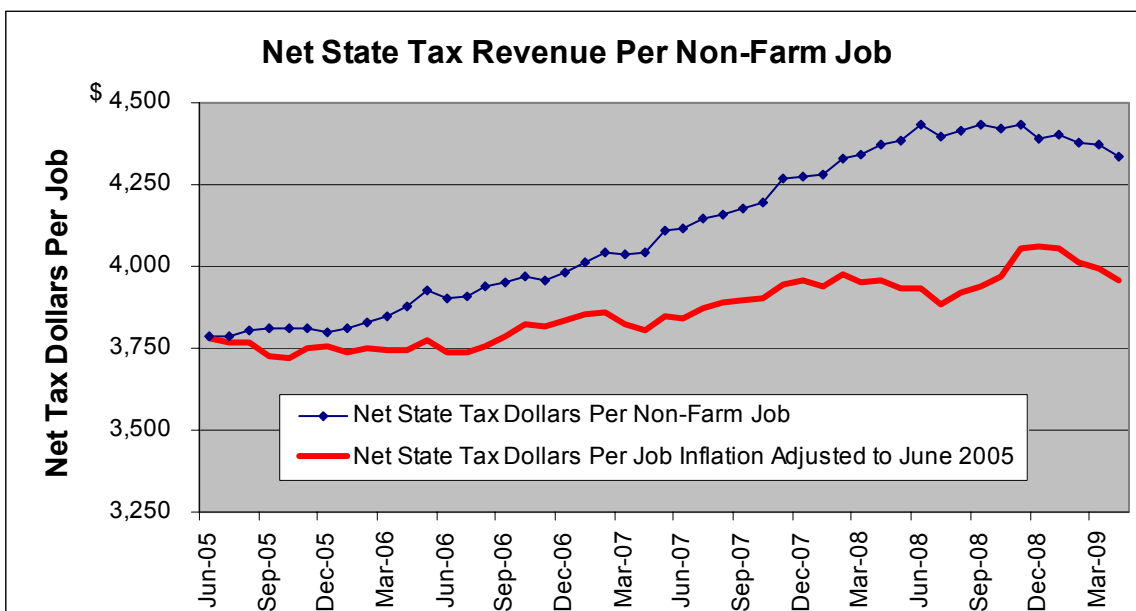
The Iowa cigarette tax was enacted in 1921 at a rate of \$.02 per pack of 20 cigarettes (HF 678, Cigarette Tax Act of 1921). The cigarette tax rate was increased periodically and reached \$0.34 per pack in 1988. In 1989 the tax was lowered to \$0.31 per pack and then increased in 1991 to \$0.36 per pack. The tax remained at \$0.36 per pack until the 2007 Legislative Session.

The tobacco tax was enacted in 1967 at a rate of 10.0% of the wholesale price (HF 702, Division 1, Tax Modification Act of 1967). The tax was increased to 15.0% in 1985, 19.0% in 1988, and 22.0% in 1991. The rate stood at 22.0% of the wholesale price until the 2007 Legislative Session.

The tax imposed on cigarettes must be paid by the person making the first sale in Iowa. Cigarette stamps affixed to the package indicate the tax has been paid. Cigarette tax returns are to be filed by the holder of a state or manufacturer's permit by the 10th day of each month for the preceding calendar month. Tobacco (other than cigarettes) tax returns must be filed by the 20th day of each month for the preceding calendar month. Revenue received from the cigarette and tobacco tax is deposited in the State General Fund. Beginning in FY 2008, the first \$127.6 million generated from the cigarette and tobacco tax is appropriated annually to the Health Care Trust Fund (Chapter 453A), Code of Iowa. House File 811 (Health and Human Services Appropriations Act of 2009) reduced the annual appropriation to \$117.8 million.

Tax Revenue and Employment

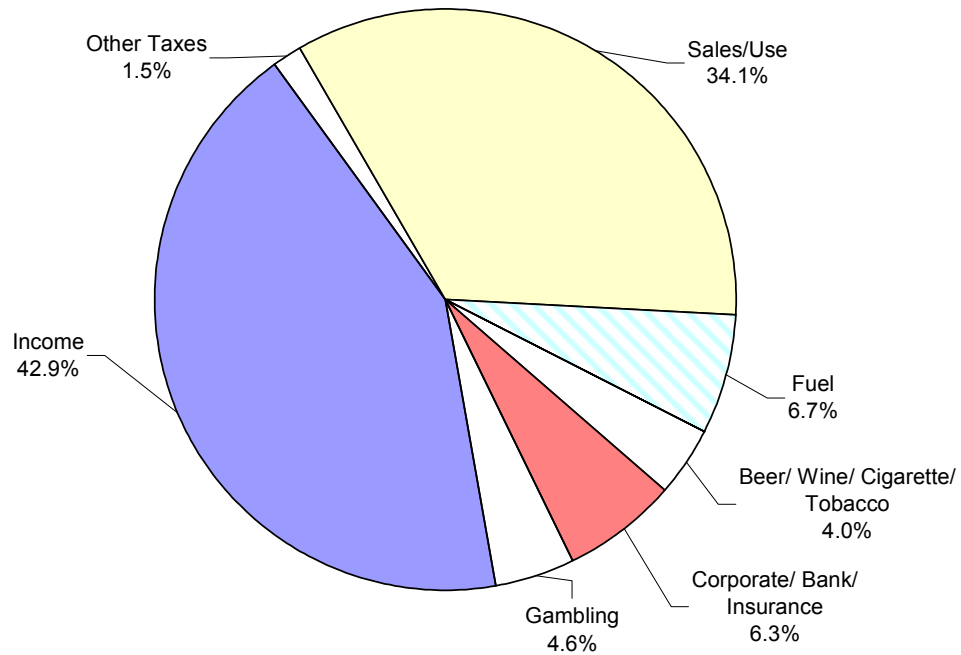
The average reading for Iowa non-farm employment over the 12 months ending April 2009 is 1,514,600, and net State tax receipts over the same 12 months totaled \$6.571 billion, or \$4,338 per non-farm job. This is \$553 (14.6%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 9.6%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 1.3% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



Net State Tax Revenue - Twelve Months Ending April 2009

Net Revenue = \$6.571 Billion

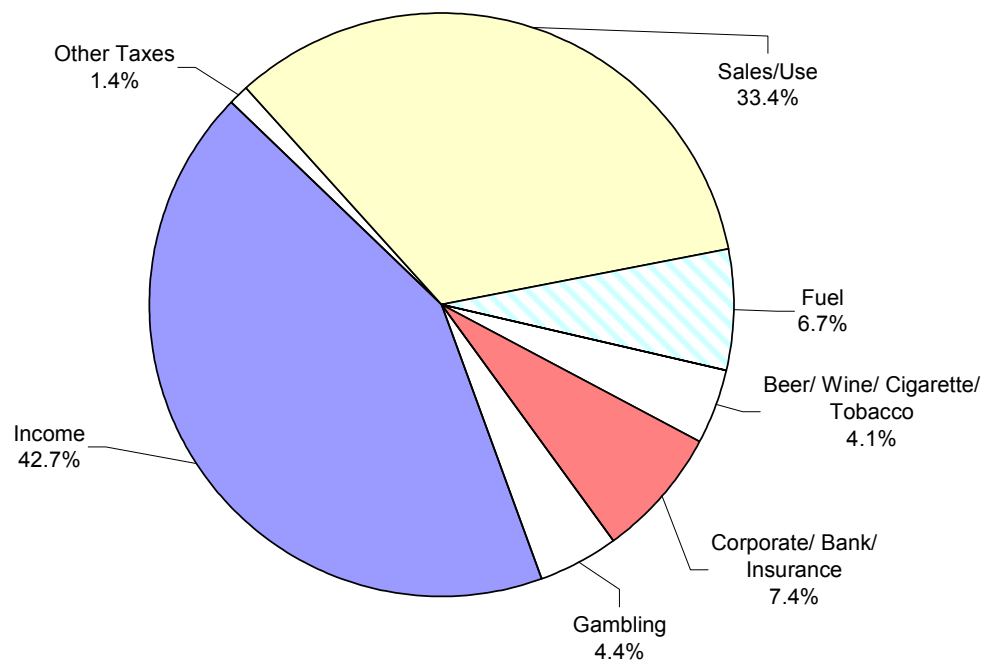
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending April 2008

Net Revenue = \$6.662 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of April 2008	Month of April 2009	April \$ Change	April % Change
Banking	\$ 33.3	\$ 30.6	\$ - 2.7	-8.1%	\$ 4.6	\$ 4.5	\$ - 0.1	-2.2%
Beer & Wine	20.7	20.9	0.2	1.0%	1.5	1.6	0.1	6.7%
Cigarette & Tobacco	251.2	243.4	- 7.8	-3.1%	22.3	18.9	- 3.4	-15.2%
Corporate Income	353.4	281.2	- 72.2	-20.4%	46.1	33.5	- 12.6	-27.3%
Fuel	448.4	438.0	- 10.4	-2.3%	34.3	32.4	- 1.9	-5.5%
Gambling	293.1	300.0	6.9	2.4%	25.0	29.8	4.8	19.2%
Individual Income	2,842.8	2,815.9	- 26.9	-0.9%	215.9	171.3	- 44.6	-20.7%
Inheritance	74.1	75.5	1.4	1.9%	4.9	3.6	- 1.3	-26.5%
Insurance	103.0	100.2	- 2.8	-2.7%	0.0	- 1.5	- 1.5	0.0%
Other Taxes	- 2.1	7.5	9.6	-457.1%	- 0.1	0.2	0.3	-300.0%
Real Estate Transfer	18.2	14.8	- 3.4	-18.7%	1.6	1.2	- 0.4	-25.0%
Sales/Use	2,226.1	2,242.7	16.6	0.7%	101.7	102.6	0.9	0.9%
Total Net Taxes	\$ 6,662.2	\$ 6,570.7	\$ - 91.5	-1.4%	\$ 457.8	\$ 398.1	\$ - 59.7	-13.0%
Gross Tax & Refunds								
Gross Tax	\$ 7,378.6	\$ 7,716.0	\$ 337.4	4.6%	\$ 584.7	\$ 596.2	\$ 11.5	2.0%
Tax Refunds	\$ - 716.2	\$ - 1,145.1	\$ - 428.9	59.9%	\$ - 126.9	\$ - 198.2	\$ - 71.3	56.2%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,690.1	\$ 5,604.4	\$ - 85.7	-1.5%	\$ 374.5	\$ 314.2	\$ - 60.3	-16.1%
Road Use Tax Fund	\$ 708.6	\$ 709.3	\$ 0.7	0.1%	\$ 53.1	\$ 53.1	\$ 0.0	0.0%
Non-GF Gambling	\$ 231.8	\$ 238.1	\$ 6.3	2.7%	\$ 24.7	\$ 29.5	\$ 4.8	19.4%
Other State Funds	\$ 31.9	\$ 19.1	\$ - 12.8	-40.1%	\$ 5.5	\$ 1.2	\$ - 4.3	-78.2%
Local Option Taxes *	\$ 705.2	\$ 784.0	\$ 78.8	11.2%	\$ 67.9	\$ 81.6	\$ 13.7	20.2%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited to the State General Fund. State credit union tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

Corporate Income Tax: All corporate tax is deposited to the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: The first \$60.0 million of gambling tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

Individual Income Tax: Most individual income tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited to the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited to the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited to a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changes beginning FY 2010, when the State General Fund percentage begins a decline to 65.0% by FY 2015.

Sales/Use Tax: General sales/use tax is deposited to the State General Fund, while most vehicle use tax is deposited to the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax was converted to a fee structure. To allow continuity of data, revenue from the fee structure is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Starting FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.